



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Riverside Elementary School District No. 2

Year Ended June 30, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 17, 2004

Governing Board
Riverside Elementary School District No. 2
1414 South 51st Avenue
Phoenix, AZ 85043-8016

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Riverside Elementary School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.7 million it received in fiscal year 2003 to provide this education.

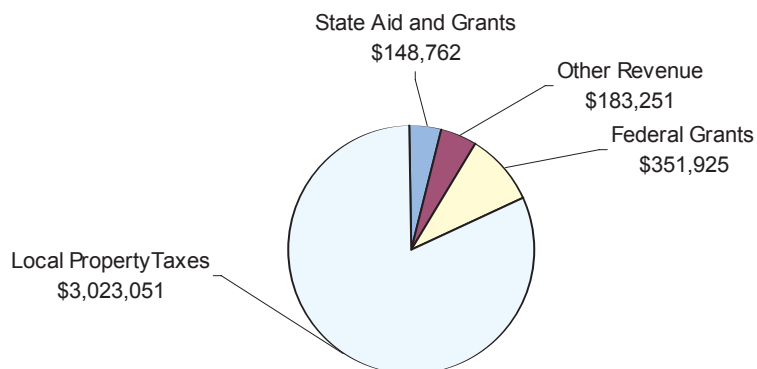
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2003

County: Maricopa
Number of Schools: 1

Number of Students: 406
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2002-2003 and Riverside Elementary School District No. 2 Single Audit Reporting Package for the year ended June 30, 2003.*

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow USFR competitive purchasing guidelines. Specifically, the District did not always obtain oral or written price quotations for purchases requiring them. In addition, the District did not document the vendors contacted and their reasons for not providing quotations when at least three price quotations could not be obtained.

The District may not have received the best value for the public monies it spent.

Recommendation

To help strengthen controls over competitive purchasing and ensure compliance with USFR guidelines, the District should obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. The purchase may be a single item within the price range, or may be a number of purchases that, in the aggregate, will be within the price range. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

USFR pages VI-G-8 and 9, and USFR Memorandum No. 209 require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending these monies. However, proper oversight was not established. Specifically, the District did not prepare cash receipts or use prenumbered tickets for cash collections and did not prepare or maintain cash collection reports. In addition, student activities checks were not signed by the student activities treasurer since the Governing Board had not appointed one.

The District did not adequately safeguard monies earned through students' efforts.

Recommendations

The District should establish the following procedures to improve controls over student activities monies:

- Require that student clubs use prenumbered tickets or cash receipt forms, a cash register, or counts of items before and after a sale. If it is not practical to sell tickets, issue receipt forms, or count items before and after the sale, such as for bake sales, the District should at least prepare cash collection reports to document cash collected.
- Require that student clubs prepare activity or cash collection reports to document and reconcile cash collections and tickets or items sold.
- Appoint a student activities treasurer who is approved by the Governing Board.
- Require student activities checks to be signed by two authorized signers with one being the student activities treasurer and another authorized signer approved by the Governing Board.

A sample student activities cash collection report is on USFR page X-H-21.

The District must adequately account for its Classroom Site Fund monies

The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in accordance with Arizona Revised Statutes (A.R.S.). However, the District did not properly allocate CSF revenues among the three separate special revenue funds. Also, for one of the funds, the District did not retain supporting documentation as to how it spent these monies, and as a result, the auditors could not determine whether the District spent the monies in accordance with statute and whether the monies were used to supplement rather than supplant existing monies from all other sources.

The District did not retain documentation to support that Classroom Site Fund monies were spent in accordance with A.R.S.

Recommendation

The District must monitor and ensure that CSF monies are allocated correctly and used in accordance with A.R.S. §15-977. Specifically, the District should prepare and retain documentation to support that CSF monies are allocated to the required CSF special revenue funds as specified in A.R.S. §15-977. Further, the District should prepare and retain documentation to support how the CSF monies it receives are spent and ensure that the monies are used to supplement rather than supplant existing monies from all other sources.

USFR Memorandum Nos. 194 and 206 provide guidance on accounting for the Classroom Site Fund.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transactions are recorded correctly and in the appropriate accounts. However, the District did not fully accomplish this objective. Specifically, the District reported capital assets and expenditures on its annual financial report (AFR) that did not always agree to its accounting records. In addition, the District did not ensure that journal entries were adequately supported and that they were reviewed and approved prior to being posted in the accounting records. Further, the District did not retain documentation to support the amounts reported on its Transportation Route Report submitted to ADE.

Recommendations

The following procedures can help the District to record and report accurate financial information:

- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Update accounting records for all revenues, expenditures, transfers, and any necessary adjustments before preparing the AFR.
- Require a second employee to verify that amounts reported on the AFR agree to the District's accounting records before it is submitted to ADE.
- Retain documentation to support journal entries.
- Ensure that management reviews and approves journal entries before they are posted in the accounting records. Also, each journal entry should contain the signature or initials of the employee who approved it.
- Prepare and retain documentation to support the amounts reported on its Transportation Route Report. This will help ensure that the District is properly funded for its transportation costs.

The District's controls over cash should be strengthened

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. However, the District did not retain supporting documentation for disbursements from the Maintenance & Operation (M&O) Fund revolving bank account. In addition, the District improperly made refunds from the Food Service Fund clearing bank account.

Recommendations

To help strengthen controls over cash, the District should ensure that it retains documentation to support its disbursements from the M&O Fund revolving bank account, including vendor invoices and check requests. Also, disbursements from the District's Food Service Fund clearing account should only be made to the County Treasurer, and refunds for unused meals should be made from the Food Service Fund revolving account or Food Service Fund with the County Treasurer.

The District's student attendance records need improvement

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. Accurate reporting is essential to ensure that the District receives its fair share of state aid. However, the District's membership and absence records did not agree to the membership and absences reported to ADE and, as a result, the District may not have received the correct amount of state funding. Also, the District did not ensure the withdrawal dates on the withdrawal forms agreed to the attendance records.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*. An employee should be assigned to verify that the withdrawal dates on the forms agree with the District's attendance records, and that membership and absences reported to ADE agree to the District's attendance records and are calculated accurately.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.